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# STEPS TO COMPLETING THE SRF LOAN PROCESS

**April 2018**





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# Why Borrow from the Trust?

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- **Low-Interest Loans**
  - No more than 2% interest by statute (for 20 year loans)
  - Approximately 2.4% interest for any loan over 20 years
  - Consistent interest rates for budgeting and planning purposes
- **No Fees and No Interest for Construction Financing (Interim Loan)**
  - Similar to the process for a BAN, but without the costs
  - Allows for one-stop financing through the Trust
- **Many borrowers are eligible for “Additional Subsidy”**
  - The Trust is required to allot 10% (Clean Water) or 20% (Drinking Water) of grant funds each year to additional subsidy, generally in the form of principal forgiveness.
  - The Commonwealth is providing matching grant funds for projects on the 2018 IUP.
  - The Trust provides 0% interest loans for projects that meet certain criteria.

# Guide to Financing

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- Local Authorization
- Loan Application & Project Approval Certificate (PAC)
- Loan Commitment Package
- Loan Questionnaire
- Green Light Letter
- Borrower Procurement Process
- MassDEP Project Regulatory Agreement (PRA)
- Financing Agreement
- Interim Financing
- Permanent Financing
- Loan Closing

# Local Authorization

## Town Meeting/City Council Vote:

- Must be voted by **June 30, 2018**
- General Obligation Pledged as Security
- Authorization to Borrow
- Appropriation
  - Make sure you ask for enough. Include:
    - Eligible and ineligible costs
    - Construction Management Fees
    - Police Details
    - Inflation



# Loan Application & Project Approval Certificate (PAC)

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- Loan Application is due to MassDEP on or before **October 15, 2018**. The Loan Application includes: Schedules, Plans and Specifications (“buildable”), Debt Authorization, Permits, etc.
- After review of the Loan Application, the PAC is issued by MassDEP to the Trust. If any requirements have not been met, the PAC will be “restricted.”
- MassDEP must issue the PAC by **December 31, 2018**
- Copies of the PAC are emailed to the Borrower and their consultant
- The PAC certifies to the Trust that the project is eligible to receive SRF financing and identifies eligible costs

# Loan Commitment Package

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- The Board of Trustees votes to create Commitment to the Borrower
- The Loan Commitment Package is emailed to borrower's Treasurer/Financial Officer and includes:
  - Loan Commitment Document
  - Requirements Letter outlining step by step process to close the loan
  - Loan Questionnaire to be completed and signed by Borrower
- Borrower needs to:
  - Request Green Light Letter from local bond counsel
  - Return one (1) signed Questionnaire to the Trust

# Loan Questionnaire

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## Borrower provides:

- Updated information in order for the Trust to comply with tax code as it is applied to tax exempt bonds
- One (1) completed Questionnaire and one (1) verification form before permanent financing
- Accurate wiring instructions for loan disbursements
  - Please notify the Trust if you change your wiring information. A Trust Program Associate will be happy to assist you



# Green Light Letter

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## At this time the Borrower's Bond Counsel Prepares:

- “Green Light Letter,” which is sent to the Trust certifying that the local vote is legal
- The Trust does not finance local costs for bond counsel



# Borrower Procurement Process

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- Project Bidding generally occurs between **January 1 and June 30**
- Before bidding, MassDEP must give “Permission to Advertise”
- After bid opening, MassDEP Civil Rights Section reviews and approves Disadvantaged Business Enterprise (DBE) participation
- MassDEP reviews bid results and issues “Authorization to Award”
  - *2018 projects receiving Principal Forgiveness must have signed construction contracts by **June 30, 2019***

# MassDEP Project Regulatory Agreement (PRA)

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- Contract between MassDEP and the Borrower
- Establishes MassDEP control over project
  - Outlines project eligibility and funding
  - Establishes disbursement procedures
  - Outlines the loan closeout process
  - Includes the legal requirements of the borrower
  - Discusses project defaults and remediation procedures
- PRA is usually issued concurrently with the “Authorization to Award” or shortly thereafter

# Financing Agreement

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- As with the PAC, the Board of Trustees votes to create Financing Agreement for the loan. The Financing Agreement:
  - Is a contract between the Trust and the Borrower
  - Outlines the Trust and Borrower's responsibilities
  - States how a loan default can occur and how to cure the default
- Once the Financing Agreement is voted, the Questionnaire is returned and the Green Light Letter is received, the Borrower will receive a package containing:
  - Two (2) copies of the PRA
  - Two (2) copies of the Financing Agreement
- Sign and Return to the Trust:
  - One (1) copy of the PRA
  - One (1) copy of the Financing Agreement

# Interim Financing

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- Lower cost than BANs, 0% interest, and No Fees
- Bond counsel issues interim loan note to the Trust
- Interim loans are usually permanently financed within one year
- If interim financing is not used, borrowers will not receive disbursements until the Trust goes to market for permanent financing.

# Permanent Financing

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- The Trust issues bonds once a year and will generally only include projects that are more than 50% complete or if it is believed that the project will be completed within one year.
- Most projects will remain in 0% interest, interim financing for 1 – 2 years before going to permanent financing.
- If you would like draft debt schedules prior to permanent financing, please let the Trust know. Schedules can be updated at your request throughout the process based upon changes before permanent financing. If you have any questions or concerns about this process, please do not hesitate to call or e-mail the Trust.

# Loan Closing

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- Upon permanent financing, payments are due **July 15** and **January 15**
- The Trust will send an invoice 30 days in advance
- Invoice will include:
  - The Trust's Wiring Instructions
  - Debt Service Payments
  - Administrative Fee Payments
  - Loan Origination Fee Payment - due at first debt service payment and is included on the repayment schedule

# Disbursements

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- “Payment requisitions” are completed by the Borrower and forwarded to MassDEP with the appropriate documentation (receipts, invoices, etc.)
- MassDEP reviews requests and approves eligible costs
- MassDEP forwards requests to the Trust
- The Trust wires funds to Borrowers every Thursday with funds often available to Borrowers the next day



# Loan Terms and Fees

	Permanent Financing	Interim Loans
Loan Rate	2% (20 Years) Calculated (30 Years)*	0%
Maximum Term	30 Years**	3 Years
Admin. Fee	0.15%	N/A
Effective Loan Rate	2.15% (20 Years)	0%
Origination Fee (one-time)	Approx. \$5.50/\$1000	N/A

**\*Rate calculated at time of bond sale, estimated between 2.4-2.9%**

**\*\* Requires useful life certificate certifying useful life will exceed the life of the loan**

# Debt Service Schedule (Schedule C)

## Draft Schedule C

Prepared by MCWT

Feb, 28 2018 - 4:12 PM

**Massachusetts Clean Water Trust  
Preliminary Structuring Analysis  
Yourtown  
CWT-18-XX**

Initial Loan Amount	5,000,000.00	Loan Origination Fee (\$5.5/1000)	27,500.00
Principal Forgiveness*		Loan Term (in years)	20
Net Loan Obligation	5,000,000.00	Loan Rate	2.00%
		Closing Date	1/15/2018
		First Interest	7/15/2018
		First Principal	1/15/2019

Date	Principal	Interest	Total Debt Service	Admin Fee (0.15%)	Loan Origination Fee	Total Debt Service	Annual Debt Service
1/15/2018							
7/15/2018		50,000.00	50,000.00	3,750.00	27,500.00	81,250.00	
1/15/2019	202,255.00	50,000.00	252,255.00	3,750.00		256,005.00	337,255.00
7/15/2019		47,977.45	47,977.45	3,598.31		51,575.76	
1/15/2020	206,651.00	47,977.45	254,628.45	3,598.31		258,226.76	309,802.52
7/15/2020		45,910.94	45,910.94	3,443.32		49,354.26	
1/15/2021	211,142.00	45,910.94	257,052.94	3,443.32		260,496.26	309,850.52
7/15/2021		43,799.52	43,799.52	3,284.96		47,084.48	
1/15/2022	215,731.00	43,799.52	259,530.52	3,284.96		262,815.48	309,899.97
7/15/2022		41,642.21	41,642.21	3,123.17		44,765.38	
1/15/2023	220,420.00	41,642.21	262,062.21	3,123.17		265,185.38	309,950.75
7/15/2023		39,438.01	39,438.01	2,957.85		42,395.86	
1/15/2024	225,210.00	39,438.01	264,648.01	2,957.85		267,605.86	310,001.72
7/15/2024		37,185.91	37,185.91	2,788.94		39,974.85	
1/15/2025	230,105.00	37,185.91	267,290.91	2,788.94		270,079.85	310,054.71

# Contact Information

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## Financial

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- Josh Derouen - 617-367-9333 x515
- Jonathan Maple - 617-367-9333 x546

## Program

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- Don St. Marie - Northeast & Western Regions 617-292-5709
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